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MAY 13 1993

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

)
The Accounting and Ratemaking)
Treatment for the Allowance for)
Funds Used During Construction)
(AFUDC))

CC Docket No. 93-50

COMMENTS OF BELL SOUTH

BellSouth Telecommunications, Inc. ("BellSouth") hereby comments in the captioned proceeding pursuant to the Commission's Notice of Proposed Rulemaking ("Notice") released March 22, 1993, FCC 93-126. The Notice addresses issues raised in Ameritech's Petition for Rulemaking filed on January 1, 1991 and by the parties commenting on that petition. BellSouth was an active participant in that docket.

In the Notice, the Commission proposes to amend Part 32 and Part 65 of its Rules concerning treatment of the Allowance for Funds Used During Construction ("AFUDC"). The Commission proposes to adopt the treatment required by SFAS 34 to account for AFUDC for both accounting and ratemaking purposes. Notice at para. 15. BellSouth supports the application of Generally Accepted Accounting Principles ("GAAP") for regulatory purposes whenever possible, including its application to funds used during construction. The Commission's proposal in the Notice is consistent with GAAP. BellSouth notes, however, that an alternative other than the Commission's current proposal would serve the public interest and also can be adopted consistent with GAAP.

No. of Copies rec'd 044
List A B C D E

In the Notice, the Commission describes three methods of recognizing funds used during construction for regulatory purposes. The first, the Capitalization Method, excludes plant under construction from rate base but capitalizes AFUDC by including it in the cost of construction, which is then included in rate base when the plant enters service. Investors recover capitalized AFUDC over the life of the plant through depreciation. The second, the Rate Base Method, includes plant under construction in the rate base

The adoption of the Commission's proposal would eliminate the distinction between long term and short term construction currently contained in Part 32 of the Commission's Rules. The Commission also proposes to amend Part 65 of the Rules to include both long term and short term plant under construction in the rate base. Also, the Notice proposes to capitalize interest on all funds used during construction and to include capitalized interest in both rate base and income for ratemaking purposes.

The primary difference between the Revenue Requirement Offset Method proposed in the Notice and the Rate Base Method is that the Revenue Requirement Offset Method requires the capitalization of interest, whereas the Rate Base Method does not. For the reasons set forth below, BellSouth does not believe that it is in the public interest to require capitalization of interest where the amount to be capitalized is not material. Therefore, BellSouth recommends that the Commission adopt the Rate Base Method to account for funds used during construction.

First, the Rate Base Method achieves the Commission's goal of consistency between its accounting and ratemaking rules. Second, the Rate Base Method is in the interest of ratepayers. As Ameritech documented in its Application, capitalization of interest increases cost of service over time. The Common Carrier Bureau can verify this conclusion by requesting a revenue requirement comparison between the

Rate Base Method and the Revenue Requirement Offset Method over time. Third, in addition to the direct reduction in the cost of service that results from eliminating capitalized interest, the Rate Base Method will reduce the cost of service over time indirectly, by reducing administrative expenses incurred to capitalize and depreciate interest. Finally, the elimination of "paper income" in the form of capitalized interest will enhance investors' perception of the quality of carrier earnings, thereby reducing capital costs over time. The elimination of unnecessary regulatory burdens resulting from the adoption of the Rate Base Method is consistent with the price cap regulatory model applied to the largest telecommunications carriers.

Despite these advantages, BellSouth would not support the Rate Base Method if that method were inconsistent with GAAP. However, BellSouth believes that the Rate Base Method can be adopted within the requirements of GAAP. SFAS 34 does not require capitalization of interest where the amounts involved are not material. As shown below, in BellSouth's case, GAAP would not require the capitalization of interest. The Rate Base Method, which does not require capitalization of interest, is therefore consistent with GAAP in these circumstances.

Attached to these comments is an analysis of the Commission's proposal to require capitalization of interest

last sentence of Section 65.820(a) of the Rules. Adoption of these recommendations is consistent with GAAP, harmonizes the Commission's accounting and ratemaking Rules, reduces the cost of service of regulated carriers, and eliminates unnecessary regulation.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.
By its Attorneys:

A handwritten signature in dark ink, appearing to read "R. W. Sterrett, Jr.", written over a horizontal line.

Robert W. Sterrett, Jr.
M. Robert Sutherland
4300 Southern Bell Center
675 West Peachtree Street, N.E.
Atlanta, Georgia 30375
Phone: (404) 528-3854

May 13, 1993

BELLSOUTH TELECOMMUNICATIONS INC.
ANNUAL INTEREST CAPITALIZED UNDER NPRM

MATERIALITY ANALYSIS

"000"

| | | |
|----|---|----------------|
| 1. | INTERSTATE AFUDC BASED ON NPRM | \$5,968 |
| 2. | INTERSTATE NET RETURN (43 - 01 - YTD) | \$608,619 |
| 3. | INTERSTATE AFUDC AS A PERCENT OF INTERSTATE NET RETURN (L1 / L2) | <u>0.9806%</u> |
| 4. | INTERSTATE NET INVESTMENT | \$4,604,488 |
| 5. | INTERSTATE AFUDC AS A PERCENT OF INTERSTATE NET INVESTMENT (L1 / L4) | <u>0.1296%</u> |

BELLSOUTH TELECOMMUNICATIONS INC.
ANNUAL INTEREST CAPITALIZED UNDER NPRM

ATTACHMENT
PAGE 2 OF 2

| LINE NUM | ITEM DESCRIPTION | "000" | | | | | | | | | |
|-----------------------------|-------------------------------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | TOTAL | AL | FL | GA | KY | LA | MS | NC | SC | TN |
| <u>MATERIALITY ANALYSIS</u> | | | | | | | | | | | |
| 1. | SHORT TERM TPUC | \$205,136 | \$23,524 | \$32,687 | \$26,442 | \$16,340 | \$28,719 | \$14,459 | \$16,977 | \$14,159 | \$31,829 |
| 2. | INTERSTATE SEPERATIONS FACTOR | | 23.67% | 25.63% | 25.85% | 25.20% | 24.75% | 27.59% | 22.15% | 25.40% | 25.23% |
| 3. | INTERSTATE SHORT TERM TPUC (L1 XL2) | \$51,383 | \$5,568 | \$8,378 | \$6,835 | \$4,118 | \$7,108 | \$3,989 | \$3,760 | \$3,596 | \$8,030 |
| 4. | TOTAL LONG TERM TPUC | \$92,464 | \$11,079 | \$23,811 | \$16,246 | \$2,244 | \$9,893 | \$14,825 | \$8,061 | \$862 | \$5,443 |
| 5. | INTERSTATE SEPERATIONS FACTOR | | 23.67% | 25.63% | 25.85% | 25.20% | 24.75% | 27.59% | 22.15% | 25.40% | 25.23% |
| 6. | INTERSTATE LONG TERM TPUC (L4 X L5) | \$23,407 | \$2,622 | \$6,103 | \$4,200 | \$565 | \$2,449 | \$4,090 | \$1,786 | \$219 | \$1,373 |
| 7. | TOTAL INTERSTATE TPUC (L3 + 6) | \$74,790 | \$8,191 | \$14,480 | \$11,035 | \$4,683 | \$9,556 | \$8,079 | \$5,546 | \$3,815 | \$9,404 |
| 8. | AFUDC RATE (COST OF DEBT) | | 7.98% | 7.98% | 7.98% | 7.98% | 7.98% | 7.98% | 7.98% | 7.98% | 7.98% |
| 9. | TOTAL AFUDC (L7 X L8) | \$5,968 | \$654 | \$1,156 | \$881 | \$374 | \$763 | \$645 | \$443 | \$304 | \$750 |

CERTIFICATE OF SERVICE
CC DOCKET NO. 93-50

I hereby certify that I have this 12th day of May, 1993 serviced all parties to this action with a copy of the foregoing COMMENTS OF BELLSOUTH by placing a true and correct copy of same in the United States mail, postage prepaid, addressed to:

Mr. Hugh L. Boyle*
Accounting and Audits Division
Room 812
2000 L Street, N.W.
Washington, DC 20554

* Hand Delivery

Gordana Coley
Gordana Coley